

**Review of the Service's Process
For Reconciling General Ledger
Accounts to Subsidiary Accounts
External to RACS**

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Subsidiary Accounts External to RACS**

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Executive Summary

Background

The Service's revenue accounting transactions are captured on the Revenue Accounting Control System (RACS). The RACS is located at each service center and serves as the revenue accounting control General Ledger. The Service Center Accounting Branch is responsible for maintaining the General Ledger and for reconciling the General Ledger accounts to their subsidiary ledgers.

This review was originally scheduled as one of eighteen different reviews in the Accounting function. As a result, this review addressed only the Service Center Accounting Branch's reconciliation process and did not verify the reconciliation procedures in any of the other functions.

Results

Seventy-seven of the Service's 168 General Ledger accounts are supported by subsidiary accounts that are not maintained on RACS. We selected seven of the seventy-seven accounts and reviewed the Service's processes and controls for reconciling the General Ledger and subsidiary account balances. We found that adequate procedures and controls were in place to ensure that the General Ledger and subsidiary accounts were timely and properly reconciled.

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Objective and Scope

We initiated this limited scope review as part of Internal Audit's 1998 Annual Audit Program that included several reviews related to service center accounting operations. Our overall objective was to determine if the Service is effectively reconciling General Ledger accounts to subsidiary accounts that are not maintained on the Service's Revenue Accounting Control System (RACS).

We selected seven of the accounts that are external to the Service's Revenue Accounting Control System.

To accomplish this objective, we selected seven of the 77 General Ledger accounts that are supported by subsidiary accounts that are not maintained on the RACS. We judgmentally selected these accounts after considering the risk associated with the type of transactions recorded in the accounts. The seven accounts are:

1710, Dishonored Checks
1720, Dishonored Checks, Adjustments
4610, Unapplied Advance Payments
4730, Miscellaneous Deposit Fund
6565, Refund Cancellation Credit
7300, Unconfirmed Debits
7610, Embezzlements and Theft

For the selected accounts, we evaluated the procedures and controls to determine whether:

- General Ledger accounts are timely and properly reconciled to subsidiary accounts, and
- Differences are identified and resolved during the reconciliation process.

Our review was limited to the reconciliation process in the Service Center Accounting Branch.

This review was originally scheduled as one of eighteen different reviews in the Accounting function. As a result, this review addressed only the Service Center Accounting Branch's reconciliation process and did not verify the reconciliation procedures in any of the other functions. In addition, we did not perform tests on

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individual account transactions to verify their accuracy or classification. Attachment I shows the detailed objectives and scope of the review.

We conducted our tests at the Fresno, Andover, Philadelphia, Austin, and Kansas City Service Centers between September 1997 and September 1998. Attachment II shows the accounts and time periods we reviewed at the service centers. We conducted the review in accordance with generally accepted government auditing standards.

Background

RACS is used to provide accounting control for all revenue accounting transactions.

The Service's revenue accounting transactions are captured on RACS. The RACS is located at each service center and serves as the revenue accounting control General Ledger. The Service Center Accounting Branch is responsible for maintaining the General Ledger and for reconciling the General Ledger accounts to their subsidiary ledgers.

The General Ledger consists of 168 accounts. Of the 168 accounts, 77 are supported by subsidiary accounts that are maintained external to RACS. The balances in the General Ledger accounts must be reconciled on a regular basis to the external subsidiary accounts to ensure assets are properly safeguarded and financial records are reliable. Depending on the account, this reconciliation must be done either monthly or quarterly. Differences between the General Ledger and subsidiary account balances should be investigated and resolved. If they cannot be resolved, they must be shown and explained as reconciling items on Form 3997, Reconciliation of General Ledger Accounts.

Form 3997 is used to alert management of imbalances between the General Ledger and the subsidiary accounts.

Form 3997 is prepared monthly and is used to notify service center executives and the National Office of any imbalances between the General Ledger and subsidiary account balances. If the accounts are reconciled, any reconciling items are identified and explained, and a Service official, not below the level of Branch Chief, signs the reconciled Form 3997. If the items cannot be

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identified and explained, the Service Center Director must sign the form. Form 3997 should be transmitted to the National Office by the 25th calendar day of the month following the month reconciled.

Results

Reconciliation procedures and controls are adequate.

Overall, adequate procedures and controls were in place to ensure that General Ledger accounts were timely and properly reconciled to subsidiary accounts. Procedures and controls were also in place to ensure that differences identified during the reconciliation process were properly resolved.

However, we found inadequate separation of duties in 3 of 21 instances (see table below). In one service center, accounting technicians who maintained two of the subsidiary accounts also performed the monthly reconciliations of these accounts. In another service center, the same individual was responsible for maintaining a General Ledger account and the corresponding subsidiary account. Separation of duties is an internal control to prevent fraud or other illegal activities; however, we do not feel that these three instances represent a significant control risk.

ACCOUNT NUMBER	# OF SERVICE CENTERS WHERE ACCOUNT WAS REVIEWED	# OF INSTANCES OF INADEQUATE SEPARATION OF DUTIES
1710	2	0
1720	2	0
4610	5	1
4730	5	1
6565	3	0
7300	2	0
7610	2	1
Total:	21	3

In addition, in two of the five service centers, Forms 3997 were not always timely sent to the National Office. We discussed these facts with service center and

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National Office personnel who confirmed it is not critical for the National Office to receive the form by the 25th calendar day following the month reconciled. The National Office indicated that it was their practice to grant extensions to any of the service centers when they call them and request an extension. We do not feel that this is a significant control weakness since it does not impact the reconciliation process or account balances.



Acting for Kevin Riley
Audit Manager

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Attachment I

Detailed Objectives and Scope of Review

The overall objective of our review was to determine if the Service is effectively reconciling the General Ledger to its external subsidiaries. To accomplish this objective, we completed the following steps:

- I. Determined if the Service was accurately reconciling the General Ledger balance to the subsidiary account.
 - A. Interviewed the RACS Database Administrators in five service centers to determine:
 - 1. the function responsible for reconciling the account;
 - 2. what information is sent by the RACS Unit to the reconciling function (reports, etc.);
 - 3. the timeframe established for reconciling the account; and
 - 4. how the RACS Unit is notified of a difference between the General Ledger Balance and the subsidiary.
 - B. Contacted the function responsible for reconciling the account in the same five service centers to determine what procedures are used to verify the General Ledger Account balance.
 - 1. Obtained a copy of any desk procedures or work aides available to assist the technicians in reconciling the General Ledger Account.
 - 2. Flowcharted the reconciliation process to identify key internal controls and to ensure adequate separation of duties between reconciliation and preparation of the subsidiary ledger source document.
 - 3. Analyzed the procedures to determine if the procedures will identify all out of balance items.
 - 4. Reviewed 220 reconciliations that were performed during a 12-month period to determine if established procedures were followed.
 - a) Reviewed 220 proof sheets and balancing sheets to ensure all subsidiary items were included in the reconciliation.
 - b) Ensured all machine tape totals are captured on proof sheets rather than on adding machine tapes.
 - c) Determined if unresolved differences were noted on Form 3997 and forwarded to the RACS Unit.

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- d) Determined if status reports have been prepared for all aged reconciled and unreconciled items on Form 3997.
 - 5. Scanned 60 Forms 3997 for a 12-month period to determine if they were certified by the:
 - a) Service Center Director if the Account was unreconciled.
 - b) Accounting Branch Chief if the Account was reconciled.
(This authority can not be delegated below the Accounting Branch Chief.)
- II. Determined if the Service is timely reconciling General Ledger balances to the subsidiary account.
 - A. Determined if the General Ledger Account is being reconciled monthly or quarterly and identified any critical timeframes required for reconciliation. (e.g., The reconciliation must be completed by the COB on the first Tuesday after the end of the month.)
 - B. Reviewed 220 reconciliations performed during a 12-month period to determine when the reconciliation took place.
 - C. Determined if 60 Forms 3997 were transmitted in time to reach the National Office no later than the 25th of the month following the month reported.
 - D. Evaluated the timeliness of the reconciliation compared to the established timeframe.
- III. Determined if the procedures in place to resolve differences identified during the reconciliation process are adequate.
 - A. Determined who is responsible for making the adjustment to the General Ledger Account or the subsidiary ledger for 21 accounts in five service centers.
 - 1. If the corrections are made by the RACS Unit:
 - a) Identified the method used to notify the RACS Unit that an adjustment needs to be made; and
 - b) Identified the approval process in place in the reconciling function to show verification of the adjustment.
 - 2. If the corrections are made by the reconciling function:
 - a) Determined if there is adequate separation of duties between the reconciliation and the correction of out of balance items.
 - b) Determined if RACS Unit is notified of the total identified difference and the resolution of those differences.
 - B. Reviewed 60 Forms 3997 prepared during a 12-month period to determine if identified differences were timely resolved.

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1. Determined the time elapsed between the reconciliation and the resolution of the last identified difference.
 - a) Noted the amount in the Aged Reconciled column on the Form 3997.
 - b) Reviewed seven status reports for the Aged Reconciled column to:
 - (1) Determine how much of the amount is attributable to previously reported items.
 - (2) Determine when those items were first reported.
 - c) Computed the difference between the date each item in the Aged Reconciled column was first reported and the date of the reconciliation being reviewed. Calculated the average delay in correcting these items.
 - d) Reviewed seven status reports to determine the last date the account was reconciled through.
2. Determined if adequate research was done on the identified differences.
 - a) Reviewed seven status reports attached to the Form 3997 to identify the attempts made and the methods used to correct the imbalance.
 - b) Reviewed seven status reports attached to the Form 3997 to identify any problems that may prevent reconciliation of the Account.
 - (1) Identified any trends in the reported problems.
 - (2) Determined if action has been taken to correct the reported problems.
 - c) Evaluated the actions taken and any documented problems to determine if additional work could have been done to resolve the items.

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Attachment II

**Service Centers Visited, and
Accounts and Time Periods Reviewed**

	Andover Service Center	Austin Service Center	Fresno Service Center	Kansas City Service Center	Philadelphia Service Center
<i>Period Reviewed</i>	<i>Fiscal Year 1997</i>	<i>May 1, 1997- April 30, 1998</i>	<i>Fiscal Year 1997</i>	<i>May 1, 1997- April 30, 1998</i>	<i>Fiscal Year 1997</i>
Account 1710		X		X	
Account 1720		X		X	
Account 4610	X	X	X	X	X
Account 4730	X	X	X	X	X
Account 6565		X	X	X	
Account 7300		X		X	
Account 7610		X		X	